

Quarterly Economic Review

*A Comparison of Selected National, Regional,
and Local Economic Indicators*
Loudoun County Department of Economic Development



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Looking a Little Deeper

Rising inflation, deteriorating consumer sentiment, and recent weakness in employment growth may tempt some to lower their expectations for the U.S. economy. However it is important that those indicators be fully explored to better gauge current economic trends. For example, inflation jumped by 1.2 percent in September, the fastest rate in 23 years. However, 90 percent of that increase was attributed to a temporary spike in energy costs. The more important 'core inflation rate', which excludes volatile energy and food prices, has been tame. And as gas prices retreat, (they have dropped 22 percent since their September peak) a decline in the pace of inflation is likely in the future. As another example, U.S. consumer sentiment recently fell to a 13-year low in October, suggesting that consumption may fade. But the decline in sentiment has coincided with robust growth in consumption, particularly in big-ticket durable goods, which increased by 10.8 percent in the third quarter. Finally, with only 56,000 jobs created in the U.S. in October, poor job growth may also be contributing to recent concern. However, a respectable 1.6 million jobs have been created in the U.S. in 2005, and perhaps more importantly, manufacturing employment appears to have finally stabilized and actually added jobs in October. Upon deeper inspection, some potentially worrying economic indicators may understate current economic momentum. Strong consumption growth, tightening labor markets, and a post-hurricane reconstruction boom should allow above average national economic growth to continue into 2006.

A review of regional indicators provides little cause for concern. In the year ending in September 2005, almost 80,000 jobs were added to the region's economy, more than any other metro area. More than a quarter of those jobs were in the high-wage professional business services sector, which increases regional wages and fuels growth in other sectors. Further, unemployment in the region dropped to 3.2 percent in September, its lowest level since May 2001 and the 5th lowest among the nation's 100 largest metro areas. A superlatively healthy labor market and exposure to high growth sectors such as professional business services and technology bode well for the region's economy.

Loudoun County continued its stellar economic expansion in the third quarter and remains one of the nation's fastest growing economies. About 7,800 jobs were added to Loudoun's economy in the year ending in March 2005 making Loudoun County the 195th largest employment base among more than 3,000 counties. Loudoun's employment growth, 6.1 percent in that period, was 5th fastest among the nation's 200 largest counties. Loudoun's unemployment rate also remains low. Despite rapid population growth that continuously increases Loudoun's labor force, Loudoun's unemployment rate was 2.1 percent in September, the lowest rate in Virginia and the 15th lowest rate in the nation.

Reasons for optimism about Loudoun's economy extend beyond its labor market. For example, Loudoun's office vacancy rates, which approached 20 percent after the technology bubble burst, are now below ten percent, a level many economists believe to be equilibrium. Continued declines in those rates may spark increased office development, which may already be occurring. Through August 2005, more than half a million square feet of office space has been permitted, a level higher than that permitted in the years 2002 through 2004. As office space in Loudoun is being absorbed at a rate of 130,000 square feet per quarter, continued office space development is likely.

Loudoun's economy appears to be on firm footing as it moves into the second half of the decade. Healthy labor markets, increasing wages, and a favorable industrial mix suggest that Loudoun will remain among the nation's healthiest local economies moving forward.

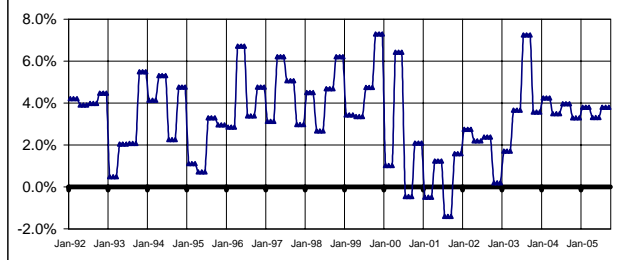
The data contained herein were obtained from sources that are believed to be reliable, but the accuracy of those figures is not guaranteed. Further, commentary contained in this publication is opinion and should be treated as such. For more information on this publication, please

contact Sean LaCroix at sslacroix@yahoo.com.

National Economic Indicators

Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product (GDP). GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S., including goods and services. Source: BEA.

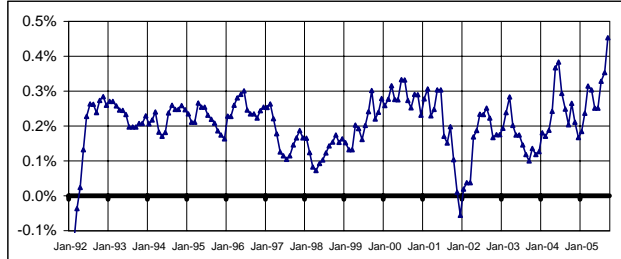


Recent Trend: **INCREASING**

Real GDP grew by 3.8% in the third quarter, despite the affect of hurricanes Katrina and Rita. Without the storms, GDP growth would have likely topped 4%. Recent GDP growth beat the 50-year average and has hovered at or above that average for ten quarters. Surges in consumption and federal government spending, primarily defense related, contributed to recent growth.

Consumer Price Index

This variable measures the six month moving average percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS.

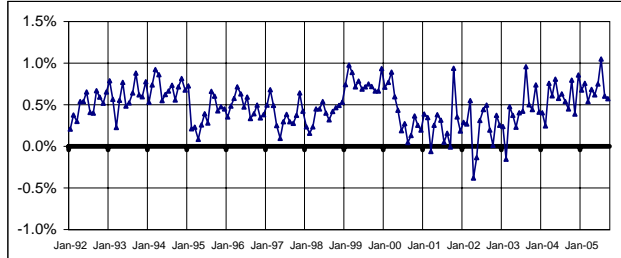


Recent Trend: **INCREASING**

Inflation spiked in the third quarter driven higher by increasing energy costs. The CPI increased by 1.2% in September, its largest increase in 25 years. However, spiking energy prices drove 90% of that increase. The 'core' inflation rate, which excludes volatile energy and food prices, increased by 0.1% in September and has been exceptionally tame for 6 months.

Retail Sales

This variable measures the six month moving average percent change in U.S. retail sales, a timely indicator of broad consumer spending patterns. Data are adjusted for seasonal, holiday, and trading day differences, but not for price changes. Source: Census Bureau.



Recent Trend: **UNCLEAR**

Retail sales fell dramatically in August. In fact, the 2.1% decline was the 11th worst performance in the last 40 years. The drop was driven by a sharp fall in auto sales as 'employee discount' programs ended. However, other segments such as furniture and health care posted relatively strong growth rates. Despite consumer worries, consumption growth appears stable.

Unemployment Duration

This variable measures the average length of time, in weeks, that unemployed persons have sought work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS.

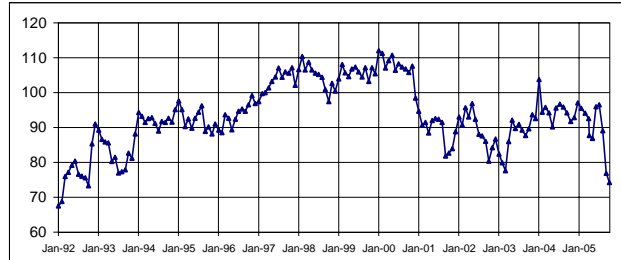


Recent Trend: **DECREASING**

The average unemployment duration fell to 18.1 weeks in October. Although it is near a three-year low, that figure remains stubbornly high. Continuing declines may suggest that the labor market is improving, however the current level is well above the 50-year average of 13.3 weeks. Long unemployment durations can adversely effect consumers' outlook and consumption.

Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Consumption is 66% of the U.S. economy. Source: University of Michigan. (1985=100).

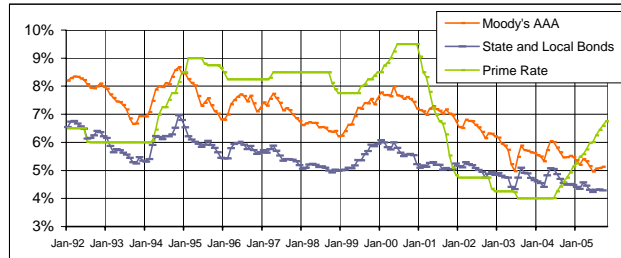


Recent Trend: **DECREASING**

The consumer sentiment index fell to 74.2, a fourteen year low, as spiraling energy prices weighed on consumers. The consumer sentiment index is viewed as a leading indicator of consumption patterns, which comprise two thirds of U.S. economic activity. However, sentiment readings may be decoupling from consumption as households continue to spend.

Interest Rates

These variables measure rates of interest in money and capital markets. They are defined as follows: Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve.



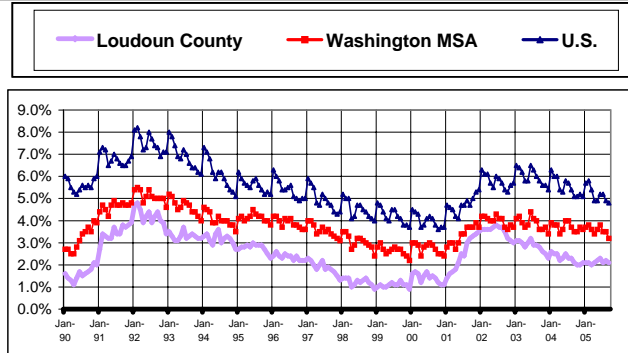
Recent Trend: **UNCLEAR**

The prime rate has continued to ratchet upward, driven higher by the Federal Reserve's recent rate policy. The state and local bond rate and the Moody's AAA rate were virtually unchanged in the latest quarter. Interest rates, which are expected to increase, will result in higher borrowing costs, may dampen consumer spending, and could adversely effect housing prices.

Regional and Local Indicators

Unemployment Rate

This variable is defined as the number of unemployed divided by the labor force by place of residence. Data are not seasonally adjusted and are subject to criticism at local levels, particularly in rapidly growing localities. Source: BLS Employment Report.

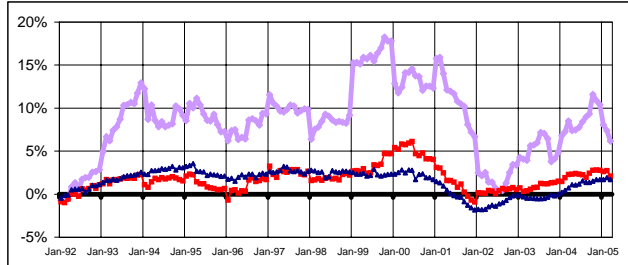


Recent Trend: **DECREASING**

Loudoun's unemployment rate fell to 2.1% in September 2005. That rate was the lowest in Virginia and lower than all but only 15 other counties in the U.S. in that period. The region's unemployment rate fell to 3.2% in September, reaching a four-year low. The region's unemployment rate was the lowest among the nation's largest 50 metropolitan areas.

Total Employment

This variable measures the annual percent change in total covered employment on a place of work basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS Employment Report.

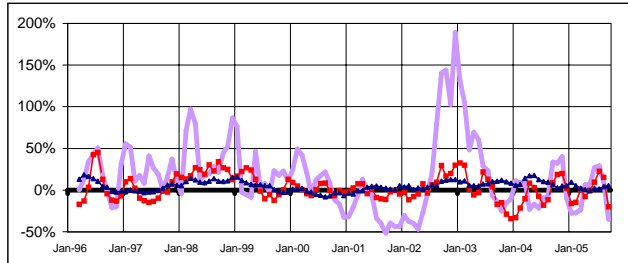


Recent Trend: **INCREASING**

In the year ending in March of 2005, employment in Loudoun increased by 6.1% or about 7,800 jobs. That growth ranked 12th among the nation's 323 largest counties. Despite having only 4% of the region's employment, Loudoun contributed 11% of the region's employment growth in that period with about a fifth of the jobs being created in the high wage professional services sector.

Residential Bldg. Permits

This variable measures the year over year percent change in the three month moving average of residential building permits. These data can be volatile at the county level. Source: Census Bureau and Loudoun County Department of Economic Development.

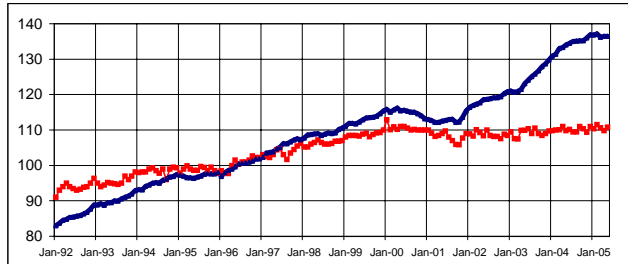


Recent Trend: **UNCLEAR**

After a robust second quarter, growth in building permits issued in Loudoun cooled considerably in the third quarter. At the current pace, the number of permits issued in Loudoun will be at a three-year low. However, Loudoun is still likely to be among the region's leaders in permits issued as similar decelerations have been observed in neighboring Prince William and Fairfax Counties.

Leading Indicators

Although these indices differ in composition, both forecast economic performance in the short term (about 6 to 12 months). The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index.

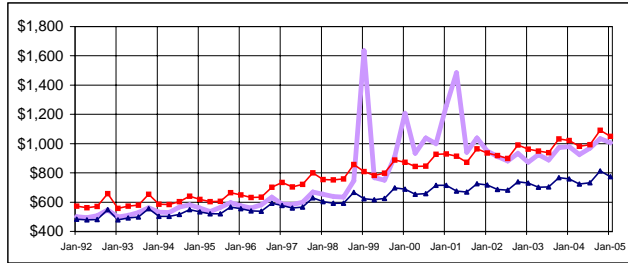


Recent Trend: **UNCLEAR**

The U.S. Leading Index has declined for three consecutive months. The fall is primarily due to a jump in unemployment claims caused by hurricanes and poor consumer expectations. The Washington Leading Index increased in August but has been relatively unchanged for several years. Strong second quarter building permit activity led the regional index higher.

Average Weekly Wages

This variable measures the average weekly wages in all industries for all employees covered by unemployment insurance. These data are not adjusted for inflation. Peaks are likely associated with bonuses. Source: Virginia Employment Commission and BLS.

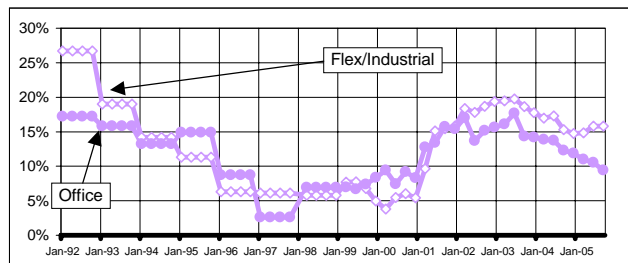


Recent Trend: **INCREASING**

Loudoun's average weekly wages increased by 3.1 percent in the year ending March of 2005. Loudoun's wages were \$1,005 and were ranked 28th among the nation's 3,100 counties. Loudoun's high wages are the result of having a strong information and professional business services presence, which combined comprise about a quarter of Loudoun's employment.

Loudoun's Vacancy Rates

These variables measure the share of office and industrial space that is vacant in Loudoun County, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable figures are not available. Source: Costar.



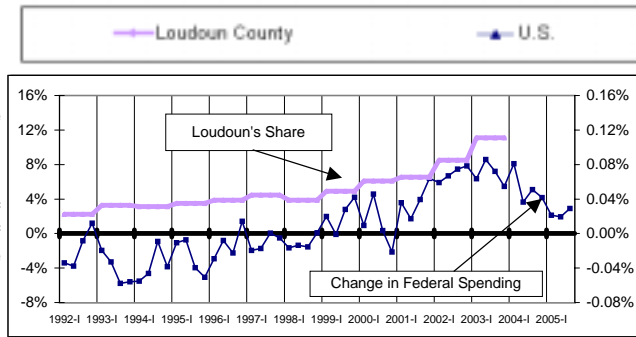
Recent Trend: **DECREASING**

The office vacancy rate in Loudoun has been trending decidedly downward for more than two years and reached 9.4% in the third quarter, the lowest level since the dot-com bust. Flex and industrial rates have stabilized at around 15 percent. In the latest year, about 1.3 million square feet of commercial space has been absorbed, almost half of which was office space.

Government Finance

Federal Spending

These variables measure the percent change in total U.S. federal consumption and investment spending (left axis) and Loudoun County's share of that spending as a percent of the nation (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

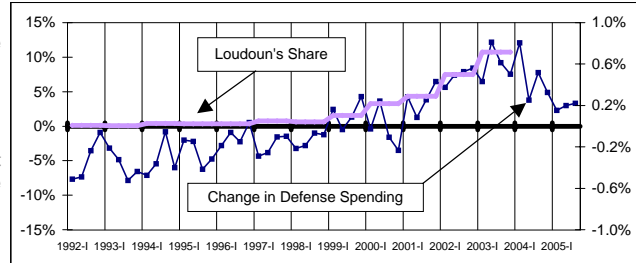


Recent Trend: **INCREASING**

Real federal spending increased by 7.7% in the third quarter of 2005, the highest rate of growth since early 2004. Continued increases in federal spending are welcome as Loudoun and the region have become increasingly large recipients of those expenditures. The share of those funds allocated to the region and Loudoun was 4.5% and 0.11%, respectively in 2003.

Federal Defense Spending

These variables measure the percent change in total U.S. federal consumption and investment spending on National Defense (left axis) and Loudoun County's share of that spending (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

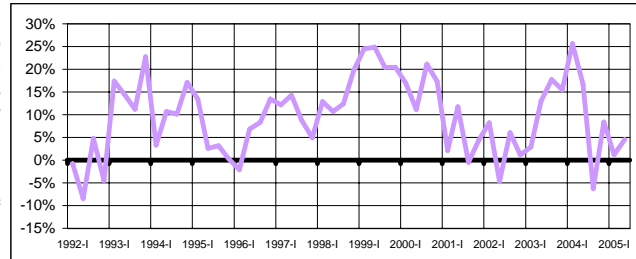


Recent Trend: **INCREASING**

Real federal defense spending jumped by 10.3% in the third quarter. At the current pace, federal spending in 2004 will increase by the fastest rate in two years. Loudoun and the region have been increasingly large recipients of defense funds, garnering 0.7% and 11.4% of those funds in 2003. Defense spending has contributed to the rapid professional services growth in the area.

Taxable Retail Sales

This variable measures the year over year percent change in total taxable retail sales collected in Loudoun County and allows insight into trends in local option sales tax revenue. Data are adjusted for inflation. Source: Virginia Department of Taxation.

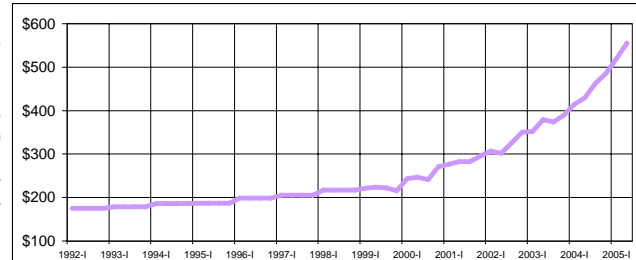


Recent Trend: **INCREASING**

After a relatively weak first quarter, retail sales expanded by an inflation adjusted 4.5% in Loudoun in the second quarter. Growth was driven by strength in auto purchases and miscellaneous sales which includes books, jewelry, flowers, sporting goods, and other items. Retail sales increased by 3.4% in Virginia and 3.0% in Northern Virginia during the same period.

Average Housing Sales Price

This variable measures the average sales price for all housing units sold in Loudoun County in thousands of dollars and may offer insight into trends in property tax revenue. Data are not adjusted for inflation or product mix, age, or size. Source: Loudoun County Dept. of Financial Svcs.



Recent Trend: **INCREASING**

The average sales price for all housing units sold in Loudoun in the second quarter was \$555,000, a 31% annualized rate of increase. Townhouses experienced the most rapid increase, gaining 43%, while prices for detached homes and condos grew by 24%. Comparable figures for the nation and the region were 13% and 26%, respectively.

Summary

	Trend		Number of Indicators
Gross Domestic Product	INCREASING		
Consumer Price Index	INCREASING		
Retail Sales	UNCLEAR		
Unemployment Duration	DECREASING		
Consumer Sentiment	DECREASING		
Interest Rates	UNCLEAR		
Unemployment Rate	DECREASING	Favorable	10
Total Employment	INCREASING	Unclear	4
Residential Bldg. Permits	UNCLEAR	Unfavorable	2
Leading Indicators	UNCLEAR		
Average Weekly Wages	INCREASING		
Loudoun's Vacancy Rates	DECREASING		
Federal Spending	INCREASING		
Federal Defense Spending	INCREASING		
Taxable Retail Sales	INCREASING		
Average Housing Sales Price	INCREASING		

Current Distribution of Indicators

